

BEFORE THE TENNESSEE REGULATORY AUTHORITY AT

NASHVILLE, TENNESSEE

October 7, 2004

IN RE:

APPLICATION OF EVERCOM SYSTEMS, INC.,
EVERCOM HOLDINGS, INC. AND TZ HOLDINGS, INC.
FOR EXPEDITED APPROVAL OF THE INDIRECT
TRANSFER OF CONTROL OF EVERCOM SYSTEMS,
INC. TO TZ HOLDINGS, INC.

DOCKET NO.
04-00218

ORDER APPROVING TRANSFER OF AUTHORITY

This matter came before Chairman Pat Miller, Director Sara Kyle and Director Ron Jones of the Tennessee Regulatory Authority (the "Authority" or "TRA"), the voting panel assigned to this Docket, at a regularly scheduled Authority Conference held on August 9, 2004 for consideration of the Application of Evercom Systems, Inc. ("ESI"), Evercom Holdings, Inc. ("EHI") and TZ Holdings, Inc. ("TZ") for TRA approval of a transfer of authority to provide telecommunications services required under Tenn. Code Ann. § 65-4-113.

Tenn. Code Ann. § 65-4-113

Tenn. Code Ann. § 65-4-113 requires a public utility to obtain TRA approval to transfer its authority to provide utility services (also known as a "certificate of public convenience and necessity" or "CCN"). Tenn. Code Ann. § 65-4-113(a) reads as follows:

No public utility, as defined in § 65-4-101, shall transfer all or any part of its authority to provide utility services, derived from its certificate of public convenience and necessity issued by the authority, to any individual, partnership, corporation or other entity without first obtaining the approval of the authority.

Tenn. Code Ann. § 65-4-113(b) provides the standards by which the TRA shall consider an

application for transfer of authority, in pertinent part, as follows:

Upon petition for approval of the transfer of authority to provide utility services, the authority shall take into consideration all relevant factors, including, but not limited to, the suitability, the financial responsibility, and capability of the proposed transferee to perform efficiently the utility services to be transferred and the benefit to the consuming public to be gained from the transfer. . . .

Background

By an Order dated August 10, 1999 in TRA Docket No. 99-00502, the TRA granted ESI the authority to provide inmate telephone services throughout the State of Tennessee ("ESI CCN"). ESI is a privately owned subsidiary of Evercom, Inc. ("EI"). All of the stock of EI is held by EHI, which is privately owned with its principal shareholders being private investment partnerships.¹ Neither EI nor EHI are operational providers of telecommunications services.

TZ is majority-owned by H.I.G.-TNetix, Inc., an affiliate of HIG, a Miami-based private equity firm. TZ is a holding company with no operational purpose other than to hold ownership interests in various enterprises in which HIG has invested. Neither TZ nor HIG are direct providers of certificated telecommunications services.

The Application

In the Application, which was filed with the TRA on July 22 2004, the Parties outline a set of transactions through which ownership of EHI and its subsidiaries, EI and ESI, will be transferred to TZ. Upon completion of the transactions, EHI will be a wholly owned subsidiary of TZ. The existing inter-corporate relationships among ESI, EI, and EHI will remain unchanged. Immediate ownership of ESI will remain with EI, and ESI will continue to be the actual provider of telecommunications services and direct holder of the ESI CCN. The Parties are seeking TRA

¹ The TRA previously approved this ownership structure. See *Application of Evercom Systems, Inc. and Evercom, Inc. for Expedited Approval of the Indirect Transfer of Control of Evercom Systems, Inc. Pursuant to a Debt/Equity Exchange By Evercom, Inc., Order Approving Transfer of Authority*, Docket No. 02-01301 (January 28, 2003). At that time, Evercom Holdings, Inc. was named EI Merger Holdings, Inc.

approval because the transactions will result in a *pro forma* transfer of ESI's CCN.

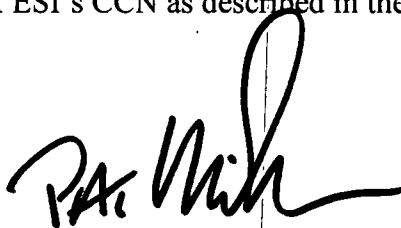
The Application states that the transactions will be transparent to customers of ESI. There will be no immediate changes in the rates, terms, or conditions of ESI's services, and ESI will continue to market, brand, and bill its services under its current practices. According to the Application, the transactions will eliminate the secured borrowings of ESI and will provide ESI with potential access to the substantial financial assets of TZ and HIG. These changes will help ESI continue to provide services to its customers and potentially expand or enhance those services at new facilities in Tennessee.

August 9, 2004 Authority Conference

At the August 9, 2004 Authority Conference, the Directors voted unanimously to approve the Petition pursuant to a finding of compliance with the requirements of Tenn. Code Ann. § 65-4-113.

IT IS THEREFORE ORDERED THAT:


1. The Petition of the Parties is approved.
2. The proposed *pro forma* transfer of ESI's CCN as described in the Application and discussed herein is approved.



Pat Miller, Chairman



Sara Kyle, Director



Ron Jones, Director